

UNSCHEDULED WINTER NATURAL GAS FILING

APPROVED FOR UNITED CITIES GAS COMPANY--HANNIBAL/CANTON DISTRICT

Jefferson City (January 30, 2001)---Due to a significant rise in the wholesale cost of natural gas, Hannibal/Canton District natural gas customers of United Cities Gas Company will experience an increase in natural gas rates under an unscheduled winter season filing approved by the Missouri Public Service Commission. The increase will take effect February 1, 2001. **This rate change is interim subject to refund. The Staff of the Missouri Public Service Commission will conduct a thorough audit, called a prudency review, to ensure that United Cities Gas Company made prudent decisions in its purchases of natural gas for its customers. If it is determined imprudent decisions were made, natural gas refunds could be ordered by the Public Service Commission.**

This filing also reflects the fact that what United Cities Gas Company is paying its wholesale suppliers for natural gas exceeds the amount it is currently recouping from its customers. **The rates charged by wholesale suppliers of natural gas are not regulated by the Missouri Public Service Commission. These rates were deregulated by an act of the United States Congress more than a decade ago.**

The Commission's order states: "This unscheduled increase in United Cities' rates is necessary because of the current extraordinarily high price of natural gas. If the price of natural gas drops in coming months, the Commission encourages United Cities to file for an unscheduled reduction in its PGA tariffs."

A residential customer currently pays \$0.6861 per Ccf (100 cubic feet of gas). Under this filing, the rate will increase to \$1.0387 per Ccf, an increase of approximately 35 cents per Ccf. For an average residential customer, this rate change will increase natural rates by approximately \$98 for February and March (approximately \$55 in February, \$43 in March). Compared to the rates that are currently in effect, this proposal would increase the average residential customer's total winter season bill (November 2000 through March 2001) by approximately 15 percent.

Approximately 60% to 70% of a customer's natural gas bill reflects the cost of natural gas from wholesale suppliers. **The wholesale cost of natural gas (the cost your local natural gas company must pay to its supplier for natural gas) is not regulated by the Missouri Public Service Commission. The wellhead cost of natural gas is unregulated and is primarily driven**

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by supply and demand. The Missouri Public Service Commission does have regulatory review authority to ensure that regulated gas companies make prudent decisions in securing natural gas supplies for their customers.

Today's natural gas market price is at an unprecedented level. Natural gas prices have quadrupled comparing January of 2000 to January 2001. A year ago, natural gas traded for approximately \$2.50 per 1,000 cubic feet of gas (25 cents per Ccf or per one hundred cubic feet of gas). That price has risen to its current record price of about \$10 per 1,000 cubic feet of gas.

In today's volatile energy market Purchased Gas Adjustment (PGA) filings like the one approved today allow natural gas company rates to change in response to changes in the wholesale price that it must pay for the gas. This mechanism helps ensure that a company has adequate financial resources to provide an uninterrupted energy supply to its customers. The Commission ensures that the interests of ratepayers are protected by ensuring that companies make prudent decisions in securing natural gas supplies through an audit called a prudency review. During that review, the PSC Staff thoroughly reviews supply contracts and purchasing decisions for prudency. These actions are intended to avoid customer payments for unwise, inefficient or imprudent business decisions.

Several factors are believed to be contributors to the current high cost of natural gas. Some of those factors include: **(1)** Increased demand for natural gas for electric generation and industry use; **(2)** Natural gas inventories (storage) are significantly lower than last year. Nationally, underground storage levels are approximately 8.5% below the 5 year average; and **(3)** High crude oil prices.

The United Cities Gas Company serves approximately 12,150 natural gas customers in its Hannibal-Canton District which includes the Missouri counties of Clark, Lewis, Knox, Marion, Ralls and Scotland.

Consumers are invited to access the Commission's website (www.psc.state.mo.us) for the monthly natural gas report. This report contains natural gas information on issues such as futures prices and United States storage levels.

